Q3 2018

Quarterly Newsletter

Sanlam FOUR Global Equity Fund

Performance Review

The fund underperformed the benchmark in Q3 as markets were driven by a narrowing range of stocks and value continued to lag. Negative positioning in consumer discretionary, staples and information technology off-set positive performance in healthcare.

Key Facts	
Fund AuM	£146.4m
Strategy AuM	£182.8m
Number of Holdings	59
Active Share	89.6%
Yield	2.8%
Tracking Error	2.9%
VaR	4.6%
% in cash	2.2%

	Inception	QTR	YTD	1Yr	3Yrs	5Yrs	Since Inception
A Accumulation GBP	27/04/11	4.8	5.4	8.1	15.0	8.7	8.1
MSCI World		6.3	9.4	14.4	19.3	14.1	12.2
B Accumulation USD	09/09/11	3.8	2.4	6.2	10.1	4.9	9.3
MSCI World		5.0	5.4	11.2	13.5	9.3	12.0

Performance beyond one year is annualised.

12 Months to	Sep-18	Sep-17	Sep-16	Sep-15	Sep-14
A Accumulation GBP	8.1	18.2	19.0	-9.4	10.1
MSCI World	14.4	14.4	29.9	1.6	12.1
B Accumulation USD	6.2	23.0	2.2	-14.2	11.1
MSCI World	11.2	18.2	11.4	-5.1	12.2

Source: Sanlam FOUR, Morningstar and Lipper as at 30/09/2018.

Past performance is not an indicator of future performance.

Market Recap

Over the quarter global markets rose in the mid-single digits in USD terms, driven almost entirely by the US market. The North American economy remained strong, with healthy ISM and GDP figures, while consumer confidence reached the highest level since 2000. Even the threat of trade sanctions on China had a limited impact on equities as Beijing ruled out a currency devaluation and the US chose to implement a staggered timetable of tariffs; $200bn of targeted goods will be taxed initially at 10% before rising to 25% in 2019.

Against this background the Fed raised its benchmark rate by 25bps with short rates now surpassing inflation for the first time in this cycle. Just like the US, Europe too remains committed to raising rates as inflation is rebounding and the European economies are gradually getting stronger. Germany in particular saw the IFO index and durable goods orders beat expectations, while Scandinavian countries had a strong market performance.

Conversely, southern European countries declined on the back of Italy's populist reactions to the Genova bridge disaster and the proposed budget deficit of 2.4% , a stark contrast with the EU's deficit trajectory plan. The UK was also a significant drag to equity markets as a disjointed government revealed itself incapable of guiding the country through Brexit.

Elsewhere, the Fed's monetary tightening as well as trade sanctions pressured emerging market currencies with the Turkish Lira, Brazilian Real and Argentinian Peso collapsing against the USD. Japan saw strong GDP growth in Q2 and the first signs of wage inflation in 20 years.

In this environment Industrials, healthcare and IT performed the best while materials, staples and utilities lagged the overall market. The USD continued its climb on the back of higher rates, as did the oil price which came within touching distance of $80.

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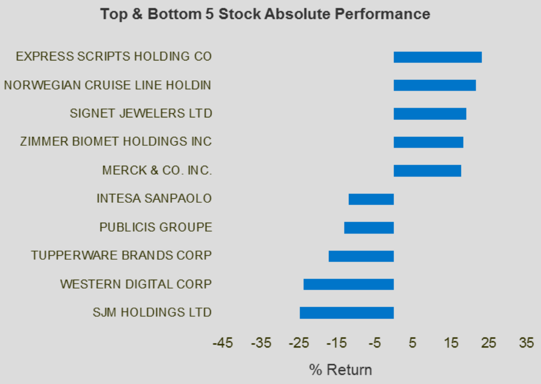
Performance Attribution



Source: Bloomberg as at 30/09/2018.

Western Digital Corporation was the largest negative contributor to performance as investors have become anxious that a turn in the semi-conductor cycle, particularly memory chips, will see earnings contract. With the street now forecasting earnings to contract by 10% on higher volumes, WDC has seen its prospective earnings multiple halve to 5x this reduced estimate.

Within consumer discretionary, SJM Holdings and Tupperware Brands both fell. SJM has been impacted by the escalating trade war as Chinese high-rollers have become more cautious whilst typhoon Mangkhut brought a temporary closure. Tupperware missed earnings and lowered guidance as several important emerging markets slowed and Western Europe experienced some manufacturing disruption. Brazil has seen a notable slowdown as a 10-day truckers strike exacerbated an already tough consumer spending environment.

Weakness over results in our two advertising agencies saw these stocks give ground. Publicis highlighted disruption caused by the adoption of GDPR in Europe, whilst WPP ceded a modest amount of margin as new business pitches and co-location costs shaved the bottom line. In consumer staples, the fund's tobacco holdings were soft as start-up JUUL has been taking the vaping market share in the US with fruit flavoured high nicotine products popular among younger smokers.

Healthcare was a strong sector for the fund with Express Scripts closing to its offer from Cigna as the deal has made good progress with regulators. In the same sector Zimmer, Medtronic and Allergan also appear in our top ten contributors with our five other healthcare holdings all meaningfully ahead of the benchmark. Oracle and HP Inc traded well through results offsetting some of the weakness elsewhere in IT whilst Norwegian Cruise Lines and Signet did the same in consumer discretionary.

During the quarter we added three new industrial holdings; US construction and specialty vehicle producer Oshkosh Corporation, UK defence group BAE Systems and Japanese factory automation equipment maker THK. We sold out of HSBC. We added to Ebay, Intesa SanPaolo, Western Digital, Anadarko and Samsung whilst cutting Express Scripts, Oracle, Signet, Medtronic and Allergan.

Market Outlook

The outlook for markets has not changed materially over the last quarter. In the near term, corporate profits (particularly in the US) look set to continue their strong growth. Third quarter earnings are forecast to grow by 20% over last year, but that number is materially boosted by corporate tax cuts and the recovery of profits in the energy sector. As these effects fade out in 2019, the outlook for earnings growth is becoming more uncertain. The list of market areas with visibly depressed profits is getting shorter whilst the list of companies with above historic profitability is lengthening. At the macro level, US profit to GDP is already comfortably above average, and appears to have already rolled over. Forecasts for economic growth remain positive (they always are!), but risks to profits from tight labour markets, rising commodity prices and interest rates are growing, not to mention the potential fall-out from a trade war.

Valuations have expanded slightly over the last three months as markets have recovered. This rise has left aggregate market valuations modestly above their long-run averages but has been driven by strong gains in a handful of very large stocks. This has left the spread of valuations in the market at wide levels compared to history (not quite yet at the 1999 peaks). This is a two-edged sword to investors. On the one hand, it provides the opportunity to build a portfolio of companies at attractive discounts to market indices but makes these market favourites increasingly vulnerable to disappointments. This concentrated pattern of stock gains has been the primary driver behind the outperformance of US markets compared to the rest of the world.

Our investment process and disciplines have led us to respond to these conditions in two ways. Firstly, our focus on sustainability of earnings has rotated us away from some of the more cyclical parts of the market, towards those with room to expand earnings or simply less cyclical earnings streams. The portfolio has neutralised the pro-cyclical earnings tilt it has shown for the last couple of years. Secondly, we have stuck to valuation disciplines, allowing us to create a portfolio which is valued at significant discounts in terms of what we are paying for assets, earnings, dividends or cashflows. We expect this combination to support superior returns and resilience over time.

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Important Information